

Message Text

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ACTION EB-07

INFO OCT-01 ARA-06 ISO-00 ERDA-05 AID-05 CEA-01 CIAE-00

CIEP-01 COME-00 DODE-00 FPC-01 H-02 INR-07 INT-05

L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06 SAM-01

OES-03 SP-02 SS-15 STR-04 TRSE-00 FEA-01 /086 W

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P R 192206Z FEB 76

FM AMEMBASSY QUITO

TO SECSTATE WASHDC PRIORITY 9085

INFO AMCONSUL GUAYAQUIL

C O N F I D E N T I A L QUITO 1388

E.O. 11652: GDS

TAGS: ENRG, EC

SUBJECT: MINISTER OF NATURAL RESOURCES VARGAS SUSPENDS EFFORTS
TO HIKE PETROLEUM PRICES; SAYS PRICES COULD BE LOWERED
DEPENDING ON RESULTS OF STUDIES

1. MINISTER OF NATURAL RESOURCES VARGAS ANNOUNCED FEBRUARY 18
THAT THE READJUSTMENT OF PETROLEUM PRICES WOULD BE DELAYED FOR
ABOUT A MONTH UNTIL THE U.S. ACCOUNTING FIRM, PEAT, MARWICK &
MITCHELL, COMPLETES ITS PENDING STUDY TO DETERMINE THE ACTUAL
COSTS OF PRODUCTION. VARGAS SAID THE GOVERNMENT IS AWAITING
THIS STUDY BEFORE IT "DECIDES ON THE INCREASE OR DECREASE IN
THE PRICE OF PETROLEUM". HE ADDED THAT THE STUDY WILL BE
CONSIDERED ALONG WITH THE PRICE ANALYSIS RECENTLY COMPLETED
BY THE GOE INTER-INSTITUTIONAL ADVISORY COMMISSION, NOW IN
THE HANDS OF THE SUPREME COUNCIL.

2. COMMENT: UNTIL THIS ANNOUNCEMENT, VARGAS HAD ADAMANTLY
INSISTED THAT THE COMPANIES COULD ABSORB A SUBSTANTIAL PRICE
INCREASE AND STILL FULFILL THE \$28 MILLION INVESTMENT PROGRAM.
EVIDENTLY BECAUSE OF LACK OF SUPPORT FROM HIS SUPERIORS,
VARGAS HAS BEEN COMPELLED TO SUSPEND IF NOT DROP HIS EFFORTS
TO HIKE THE PRICE. TO SAVE FACE, THE MINISTER OFFERED A
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BOGUS EXCUSE FOR DELAYING PRICE READJUSTMENTS; THE COST OF

PRODUCTION HAS NEVER BEEN A MAJOR FACTOR IN PREVIOUS
ADJUSTMENTS, BECAUSE OF ITS RELATIVELY SMALL MAGNITUDE,
ALTHOUGH IT HAS BEEN A MINOR BUT CONSISTENT BONE OF CONTENTION
BETWEEN THE GOE AND THE COMPANIES FOR SOME TIME. THE PRICE
OF PRODUCTION HAS BEEN ARBITRARILY ESTABLISHED BY GOVERNMENT
DECREE AT 51.2 CENTS PER BARREL SINCE JULY 8. SEVERAL MONTHS
AGO A HIGH-LEVEL TEXACO EXECUTIVE TOLD EMBOFF THAT THE
COMPANIES ESTIMATE THE COST OF PRODUCTION SOMEWHERE AROUND
59 CENTS A BARREL.
BREWSTER

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Message Attributes

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Margaret P. Grafeld
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